NEX-TECH
Your Broadband & Technology Company

Ex Parte Communication Filed via ECFS

June 23, 2017

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: ***In the Matter of Connect America Fund*, WC Docket No. 10-90; Consumer Broadband-only Loop Revenue Requirement Determination**

Dear Ms. Dortch:

Rural Telephone Service Company d/b/a Nex-Tech (Nex-Tech) submits this ex parte communication to express its views on the Federal Communications Commission's (Commission or FCC) Consumer Broadband-only Loop (CBOL) revenue requirement determination methodology and possible changes that are under consideration.

Nex-Tech is in full support of the Commission's policy to better support standalone broadband services in high-cost rural areas. Due to increasing demand from its customers and changing technology, Nex-Tech began offering CBOL service in earnest in 2011 when the FCC adopted the USF Transformation Order, which promised USF for costs associated with this service in high cost rural areas. Imagine our dismay as each year passed and the number of CBOL customers continued to grow, yet no progress was made to support this service. Finally, in 2017, five years later, there is some limited support made available, yet even this is threatened by another possible uncertain change in the newly created mechanism and possible reduction in support.

In the Commission's March 2016 *Rate-of-Return Carrier Universal Service Fund Reform Order* (FCC 16-33, rel. March 30, 2016), a support mechanism for standalone broadband service was finally adopted. A new cost category, CBOL, was created to assist the Commission in identifying the amount of support necessary to meet national broadband universal service goals. CBOL costs and revenues are then a key input into the newly-created Connect America Fund Broadband Loop Support (CAF BLS) mechanism.

In order to recognize CBOL costs, the Commission adopted a method whereby an estimate, based on total Common Line revenue requirement, is made of the associated CBOL revenue requirement. Once calculated, this "surrogate" CBOL revenue requirement is then allocated out of the carrier's interstate special access revenue requirements and into the newly-created CBOL category.

P.O. Box 158
145 North Main
Lenora, KS 67645
phone: 785.567.4281
toll free: 877.567.7872
fax: 785.567.4401
www.nex-tech.com

However, in certain circumstances, a problem arose with the CBOL cost surrogate method related to the amount reallocated from interstate special access to CBOL revenue requirements. To address this issue, the Wireline Competition Bureau (Bureau) issued two waiver orders of the cost surrogate rule (DA 16-1383, rel. Dec. 14, 2016; DA 17-268, rel. March 20, 2017). According to the Bureau, the cost surrogate rule (47 CFR § 69.311 and 69.416) "would over-allocate the costs from the Special Access category to the new CBOL category." To address this problem, the Bureau decided to give rate-of-return (RoR) carriers the option to limit the costs removed from the special access category "to the amount only affecting broadband transmission rates." In other words, the cost surrogate waiver allowed carriers to limit the amount of revenue requirement shift to that related to digital subscriber line (DSL) special access revenue requirement.

The Commission's rationale for adopting the original cost surrogate method continues to hold, to a certain, limited extent. The costs associated with common line and CBOL services are similar, and the surrogate cost approach does take into account the broadest definition of loop costs feasible based on the Commission's current accounting rules. However, the operation of the cost surrogate method revealed a possible weakness in the theory – that using common line costs may not relate directly to the actual costs of providing CBOL services.

Nex-Tech recognizes the potential difficulties presented by the Commission's original cost surrogate rules and the solutions adopted in the cost surrogate waiver orders. The Bureau's solution, to provide an option for carriers to limit the revenue requirement reallocated from the Special Access category to the CBOL category, remains, in Nex-Tech's opinion, the optimal way to address this issue. Thus, Nex-Tech urges the Commission to adopt, on a permanent basis, the surrogate cost waiver order's solution to limit the amount of Special Access revenue requirement allocated to the CBOL category to the total DSL revenue requirement. This has twofold benefits: (1) it avoids the distortive effects on non-end user broadband rates, and (2) has been in place for the past two tariff filings and the current estimate of CAF BLS. To change policy now to something other than that adopted in the cost surrogate waiver orders would be to invite uncertainty, confusion, and other unintended consequences.

Nex-Tech appreciates the opportunity to discuss this issue with the Commission and Bureau.

Sincerely,

Rhonda S. Goddard

Rhonda S. Goddard
Chief Financial Officer

RSG/CKW